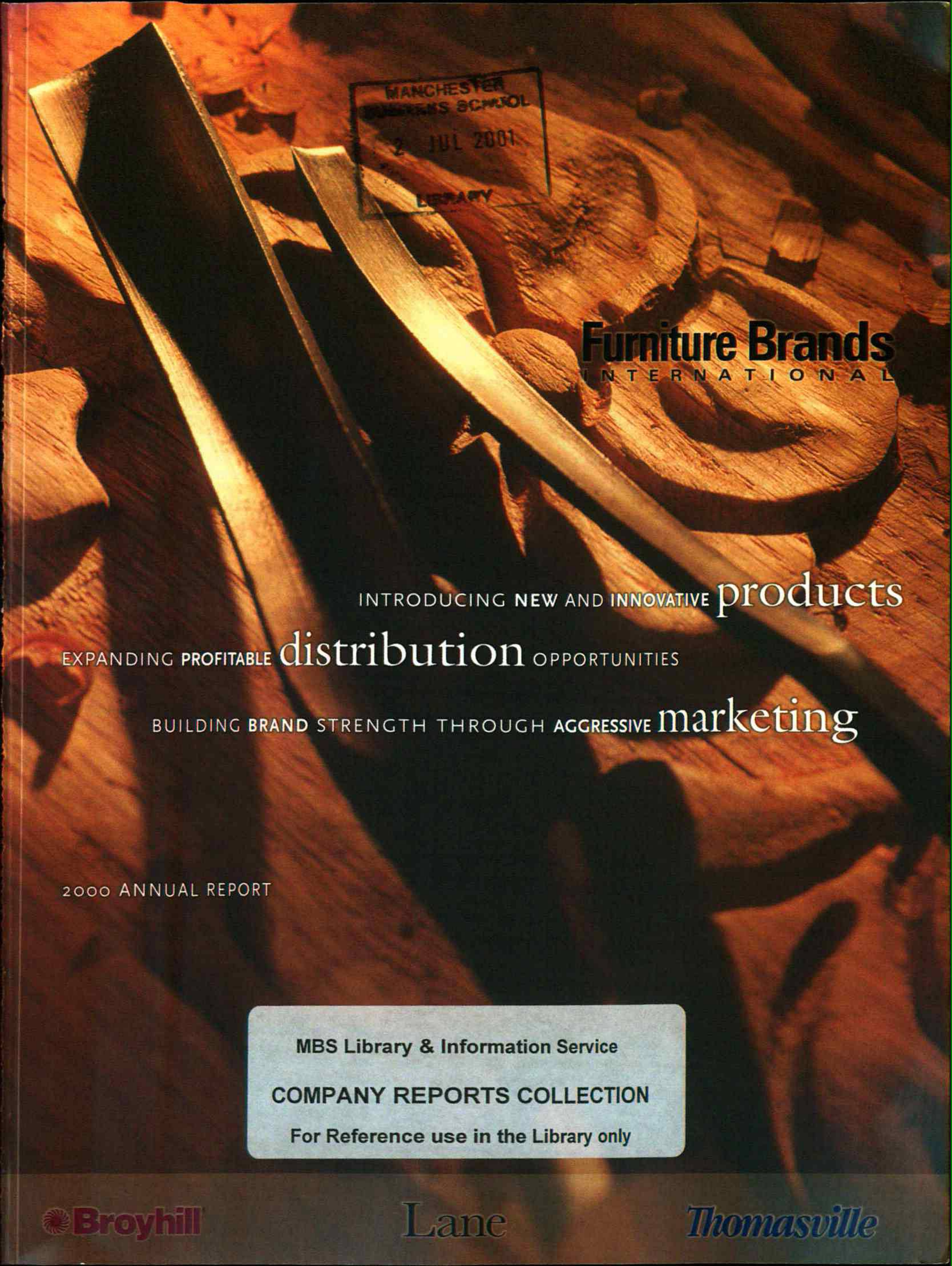


Furniture Brands
INTERNATIONAL

INTRODUCING **NEW** AND **INNOVATIVE** products

EXPANDING **PROFITABLE** distribution OPPORTUNITIES

BUILDING **BRAND** STRENGTH THROUGH **AGGRESSIVE** marketing

2000 ANNUAL REPORT

Broyhill Lane Thomasville

FURNITURE BRANDS INTERNATIONAL HAS THE BROADEST RANGE OF PRODUCTS IN THE RESIDENTIAL FURNITURE INDUSTRY. IN 2000, IT FURTHER WIDENED ITS LINEUP BY SUCCESSFULLY INTRODUCING INNOVATIVE NEW products, CONTINUING THE AGGRESSIVE EXPANSION OF ITS INDUSTRY-LEADING distribution NETWORK, AND BACKING THE PRODUCTS WITH AWARD-WINNING marketing PROGRAMS.

FURNITURE BRANDS INTERNATIONAL HAS ACHIEVED RECORD **sales** AND RECORD **earnings per share** FOR SEVEN CONSECUTIVE YEARS.

FINANCIAL HIGHLIGHTS

(In thousands, except per share, employee and statistical data)	Year Ended December 31, 2000	1999	1998	1997	1996
From continuing operations:					
Net sales	**$2,116,239**	$2,088,112	$1,960,250	$1,808,276	$1,696,795
Net earnings[1]	**108,351**	111,910	90,077	67,053	54,222
As a percentage of net sales	**5.1%**	5.4%	4.6%	3.7%	3.2%
Net earnings – as adjusted[2]	**118,990**	122,429	101,053	79,742	66,919
As a percentage of net sales	**5.6%**	5.9%	5.2%	4.4%	3.9%
Per share of common stock (diluted):					
Net earnings[1]	**$ 2.15**	$ 2.14	$ 1.67	$ 1.15	$ 0.88
Net earnings – as adjusted[2]	**$ 2.36**	$ 2.34	$ 1.88	$ 1.36	$ 1.08
Financial condition at year-end:					
Working capital	**$ 548,463**	$ 518,036	$ 509,148	$ 482,288	$ 462,661
Current ratio	**4.8 to 1**	4.4 to 1	4.1 to 1	4.5 to 1	4.2 to 1
Total assets	**1,304,838**	1,288,834	1,303,204	1,257,236	1,269,204
Total long-term debt	**462,000**	535,100	589,200	667,800	572,600
Shareholders' equity	**$ 583,905**	$ 474,197	$ 413,509	$ 323,322	$ 419,657
Average common shares (diluted)	**50,443**	52,335	53,809	58,473	61,946
Number of employees	**20,700**	21,400	20,700	20,700	20,800

[1]Net earnings before nonrecurring gains and losses, net of taxes and extraordinary item, net of taxes.
[2]Adjusted to remove depreciation and amortization related to the 1992 asset revaluation, net of taxes.

CONTENTS

LETTER TO OUR

shareholders

W.G. (MICKEY) HOLLIMAN

Chairman of the Board,
President
and Chief Executive Officer

Each year since 1996 I have addressed you in this space, providing my analysis of your Company's operating results for the year just ended. This year my analysis of those results will be brief. Instead, I will discuss in more depth the larger issues facing your Company — the challenges we expect and the strong, specific programs we have implemented to address them.

A CHALLENGING YEAR 2000

▶ 2000 was a year in transition, starting with a strong economy and strong operating momentum in the first half, only to be reversed by a weakened economy in the second half. Distribution issues also hindered our momentum. In addition to the consolidation of retailers in our industry, several large retailers have recently filed for bankruptcy protection or liquidation. These actions have negatively impacted our retailer base.

Despite these challenges, the Company still achieved record sales of $2.12 billion and record earnings per share of $2.15.

Working capital expanded in the second half of the year due primarily to higher than expected inventories in anticipation of a successful fall selling season that obviously did not materialize. At the expense of earnings, manufacturing downtime throughout the Company was required in the fourth quarter in order to return inventories to appropriate levels.

Meanwhile, we've adjusted operations to current conditions and anticipate progress toward our targeted objectives as we enter the new year.

THIS INDUSTRY IS READY FOR A DOMINANT PLAYER,

AND WE WILL EMERGE AS THE undisputed industry leader.

PREPARING FOR THE FUTURE

While enjoying the benefits of the strong national economy during the 1990s, we foresaw this softening of the business environment and the structural transition in our industry. Since 1996, we have undertaken several important programs to position Furniture Brands International for those changes and to help us emerge as the undisputed industry leader. They make an impressive list:

- We have made long-term debt repayments approaching $300 million, and we are now approaching our long-stated goal of a 40 percent debt-to-capitalization ratio.
- We have enhanced the quality of our distribution system by realigning our customer base, walking away from some $120 million in sales to retailers with credit problems, distribution issues, or other concerns. Despite this, we have shown impressive top-line growth. Our dedicated distribution system is now at 11.5 million square feet, up from 7.6 million in 1996.
- Without a doubt, we have developed the strongest management team in the industry by installing new CEOs in all three of our primary operating companies.
- We have established an industry-first, exclusive relationship with America's Research Group, a premier consumer research firm. Test-marketing furniture before it is released helps eliminate inefficiencies in new-product introductions.
- In another industry first, we have partnered in the development of Outlook International — which exclusively represents Furniture Brands International — to monitor our offshore sourcing. Our import business now represents more than $200 million in annual sales, and it is becoming an increasingly important supplement to our strong domestic manufacturing base.
- We have established successful strategic alliance relationships with Havertys, Kittle's and Benchmark — all dominant regional retailers. As furniture retailing undergoes the most significant shake-out in recent memory, we are firmly aligned with three of the strongest and most successful players in the industry.
- We have accelerated the rollout of the Thomasville Home Furnishings Stores program — now tracking at 25 new stores a year, all run by outstanding independent dealers. This growth has established Thomasville as an industry leader in the field of single-line stores.
- We have capitalized on our brand name strength through an unprecedented licensing arrangement between Thomasville and The Home Depot. Thomasville-branded kitchen and bath cabinets can now be found at every Home Depot store, providing a strong flow of licensing fees and unequaled visibility of the Thomasville brand name.
- Finally, we continue to focus on product innovation, cost control, margin improvement, SKU reduction and asset utilization — the everyday "blocking and tackling."

UP TO THE CHALLENGE

All of these efforts have combined to position our company where we are today — on the launching pad waiting for a few fundamental economic positives to develop and for the investment community to return its focus to solid value stocks. Recent signals indicate that value stocks are returning to favor.

This is an industry in transition, one that is ready for a dominant player, and we will emerge as the undisputed industry leader.

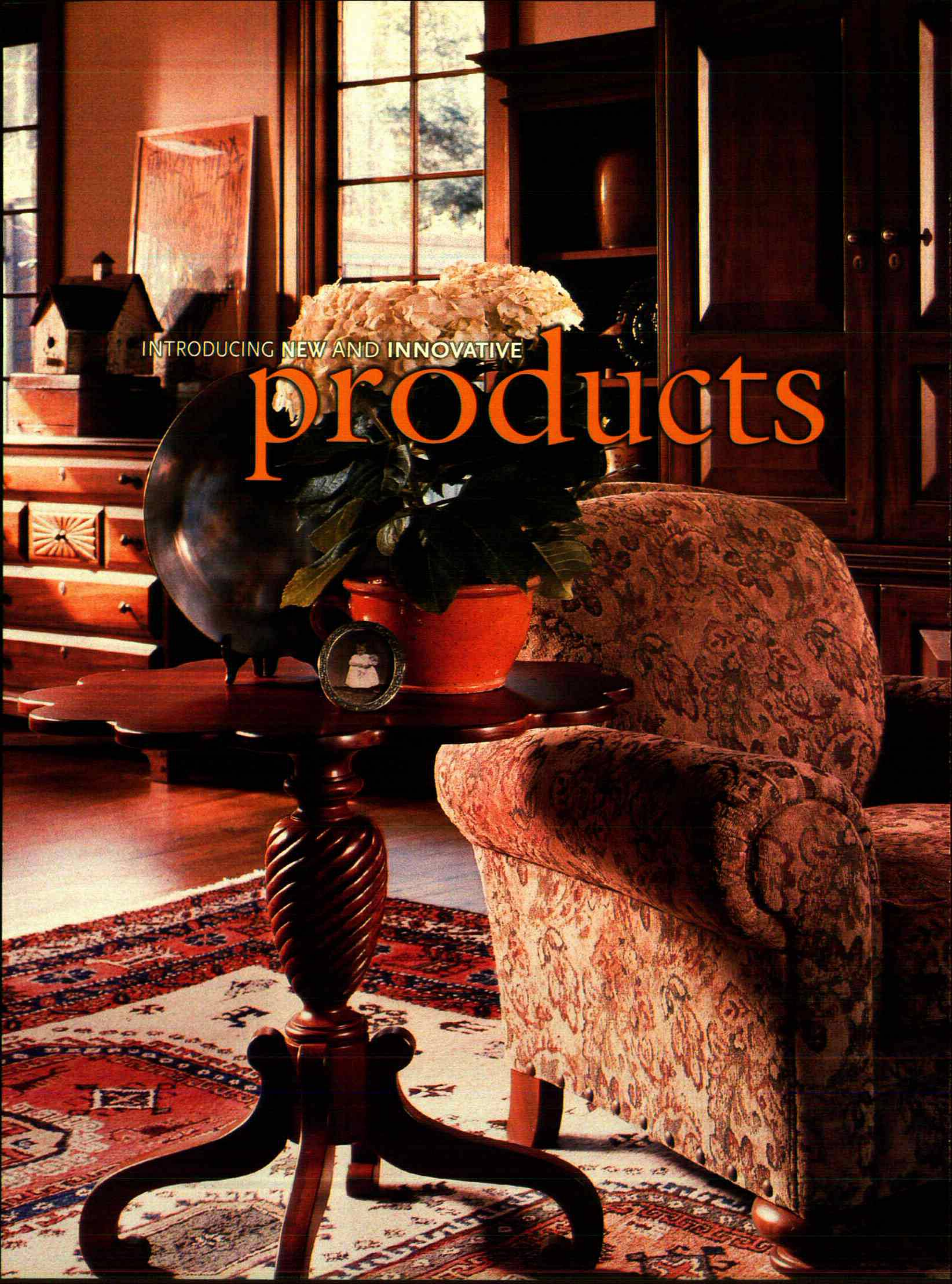
On behalf of our entire management and employee team, we thank our shareholders, suppliers and customers for their confidence and continuing support. Today, Furniture Brands International is America's largest residential furniture manufacturer. Our domestic market share, however, only approaches 10 percent, and we have barely scratched the surface in the international markets. We are eager to face the challenges and opportunities of the coming year.

Sincerely,

W.G. (Mickey) Holliman
Chairman of the Board, President
and Chief Executive Officer

INTRODUCING NEW AND INNOVATIVE

products



In 2000, Furniture Brands International successfully introduced new products in all categories at a broad range of price points, widening what is already the broadest range of products in the residential furniture industry. Following are some of last year's product highlights.

Left: Broyhill's Village Tapestry family room features furniture based on classic designs by early American craftsmen. Top: Broyhill's Villa Provence bedroom earned an excellent reception from retailers. Bottom: Broyhill's Indulgence sofa offers classic styling at affordable prices.

BROYHILL

▶ Broyhill Furniture Industries' product strategy is to market whole-house collections in the good, better and best price segments. It followed that strategy in 2000 with three highly successful introductions:

- Expanded its popular GX collection with the introduction of youth furniture in the good segment.
- Launched the Village Tapestry collection in the better segment, capitalizing on the success of the Continental Tapestry collection introduced in 1999.
- Introduced a Country French collection, Villa Provence, as part of its Signature Series in the best segment.

Also in 2000, Broyhill launched its first line of stationary leather furniture in three lifestyle categories — Simply Rustic, Mostly Modern and Timeless Tradition. Dealer and consumer reaction to these products has been outstanding.

Finally, an industry milestone was reached when Broyhill's Fontana collection reached $1 billion in lifetime sales — an industry record for a single collection.

Left: Laneventure added to its eclectic collection of indoor furniture with Club Havana, an addition to the Excursions line.
Right: This dining room is from the Eddie Bauer Portage Bay collection, the newest in Lane's highly successful Eddie Bauer line.

Lane cedar chests

ARE AS MUCH A PART OF AMERICANA

AS BASEBALL AND APPLE PIE.

LANE

Lane Furniture Industries entered new product categories in 2000 and had tremendous success with its leather product line. The Action Industries subsidiary introduced two new recliners in the best price segment. One, the Human Touch Technology (HTT) robotic massage recliner, features a total massage system and is the only recliner to be endorsed by the American College of Chiropractic Orthopedists. The design of the other new recliner, the First Class Seating recliner, was based on America's Research Group's findings on what consumers want in a premium-priced recliner. It received a terrific reception with virtually all Lane recliner retailers placing orders.

Lane Leather products, the operating company's fastest-growing segment, doubled sales in 2000 compared to 1999. In 2001, expect Lane to introduce additional leather motion and recliner products.

Lane introduced its third Eddie Bauer collection, Eddie Bauer Portage Bay, which is differentiated from earlier collections by a more rustic look, darker finishes and

LANE ENTERED A NEW MARKET WITH THE LAUNCH OF LaneKids.

THE LANEKIDS COLLECTION HAS EARNED THE
Good Housekeeping Seal of Approval.

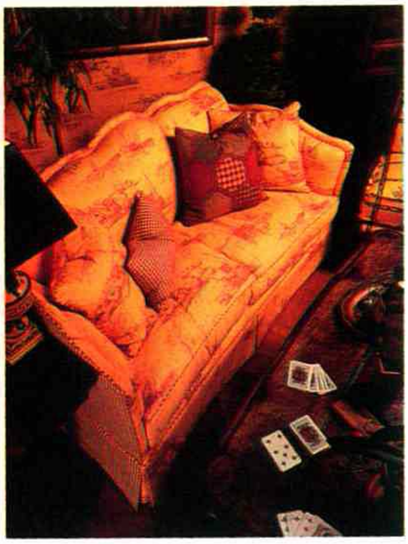
Top: The Madison line of LaneKids mixes Shaker and Mission design details. Bottom: Lane's expanded Designer Series of motion furniture can be customized to allow the consumer greater design flexibility.

totally different styling. Like the first two Eddie Bauer introductions, it received excellent acceptance from retailers and consumers.

In 2000, Lane launched its first line of youth furniture, LaneKids. America's Research Group had separately surveyed consumers and retailers. Consumers said they wanted juvenile furniture that would last at least through high school. Retailers exhibited enthusiasm for a line of Lane-branded youth furniture. Using these results, Lane introduced LaneKids featuring four complete youth bedroom collections, including Down East and Eddie Bauer. The collection has earned the Good Housekeeping Seal of Approval — a first in the industry.

Laneventure entered a new product category in 2000 with the successful introduction of the Raymond Waites Sling Collection. Sling, the largest category of outdoor furniture, features fabric stretched over the chair frame. The fabric is not as bulky as cushions and is sturdier than straps. Laneventure also introduced the Verona Collection, a new line of teak furniture, which features a deep-seated, patented cushion system, designed by renowned interior designer Blake Tobin.

THIS **high-leg recliner** FROM LANE APPEALS TO WOMEN WHO DON'T LIKE THE "RECLINER LOOK."



Left: Hickory Chair is the exclusive manufacturer of this collection by renowned home designer William E. Poole. Center: Leather upholstery remains a strong growth area for Thomasville. Right: Pearson offers unique upholstery designs with leading-edge fabrics.

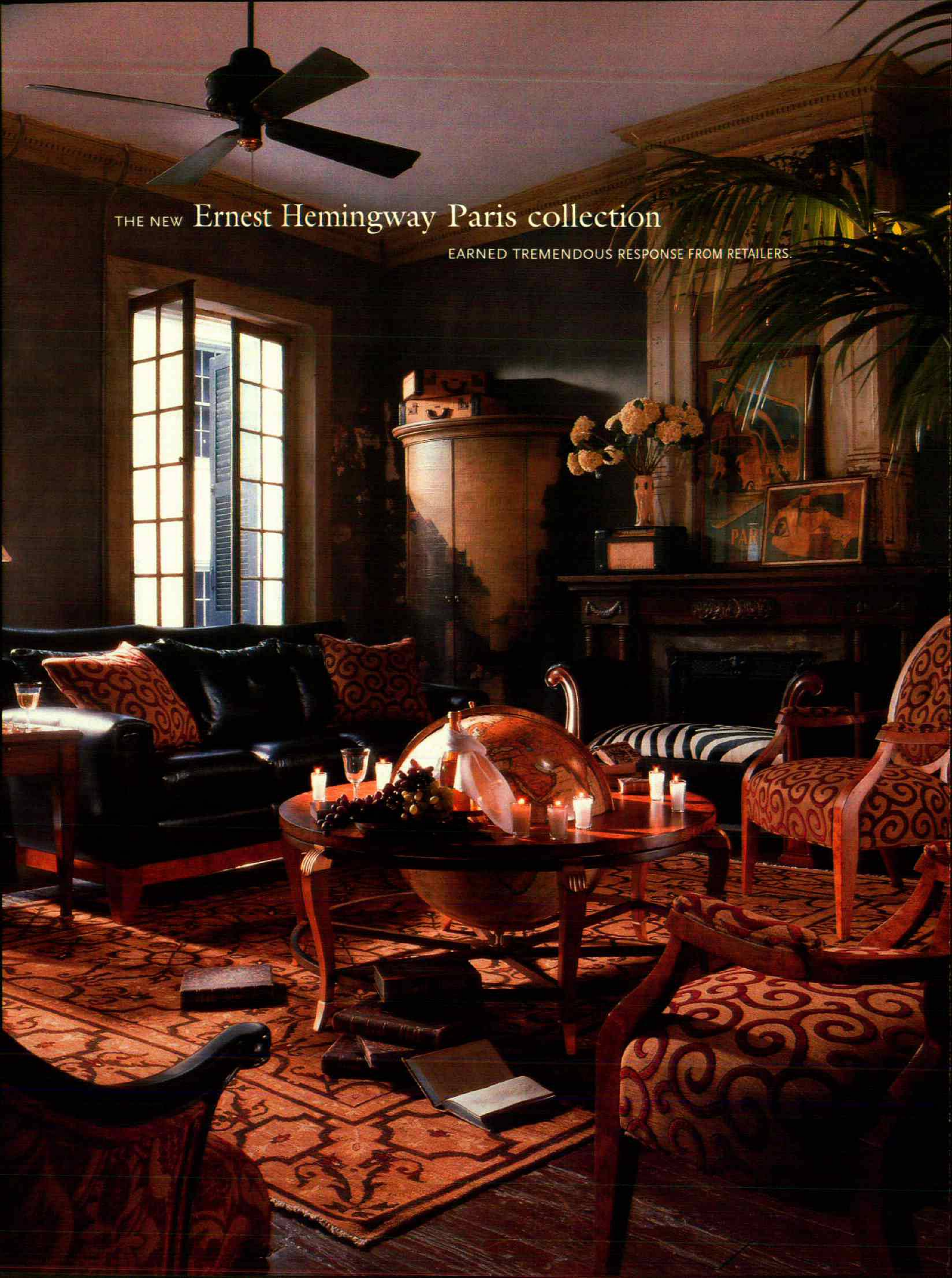
THOMASVILLE

▶ Thomasville Furniture Industries introduced two major collections in 2000. The first, Hemingway's Paris, from the Ernest Hemingway Collection, earned tremendous response from retailers as Thomasville continues to capitalize on the popularity of the great writer. The second, the Mission Arts collection, reflects the Chicago Prairie School look.

Thomasville is marketing its newest collections in more limited assortments than previous collections. The limited-assortment strategy accelerates Thomasville's response times to consumers and gives the operating company a competitive advantage.

Another important event in 2000 was the initial rollout of the Thomasville-brand line of cabinetry under a licensing agreement with The Home Depot, the world's largest home improvement retailer. Thomasville's brand awareness is expected to increase dramatically once this rollout, scheduled for early 2001, is completed.

THIS ECLECTIC TABLE EXEMPLIFIES THE unique look OF THE ERNEST HEMINGWAY COLLECTION.


THE NEW Ernest Hemingway Paris collection
EARNED TREMENDOUS RESPONSE FROM RETAILERS.

THE IMPORTANCE OF IMPORTS

Last year, Furniture Brands International increased its import offerings, signaling a trend that will grow in importance. Imports expand the Company's manufacturing capacity without expensive investments in new factories. The increase in imports is a direct result of a 1999 decision to enter into an exclusive relationship with Outlook International, a company that actively supervises the manufacture, quality control, and shipping logistics of furniture produced in the Far East. Outlook currently monitors the work of more than 30 factories that manufacture products for the Company.

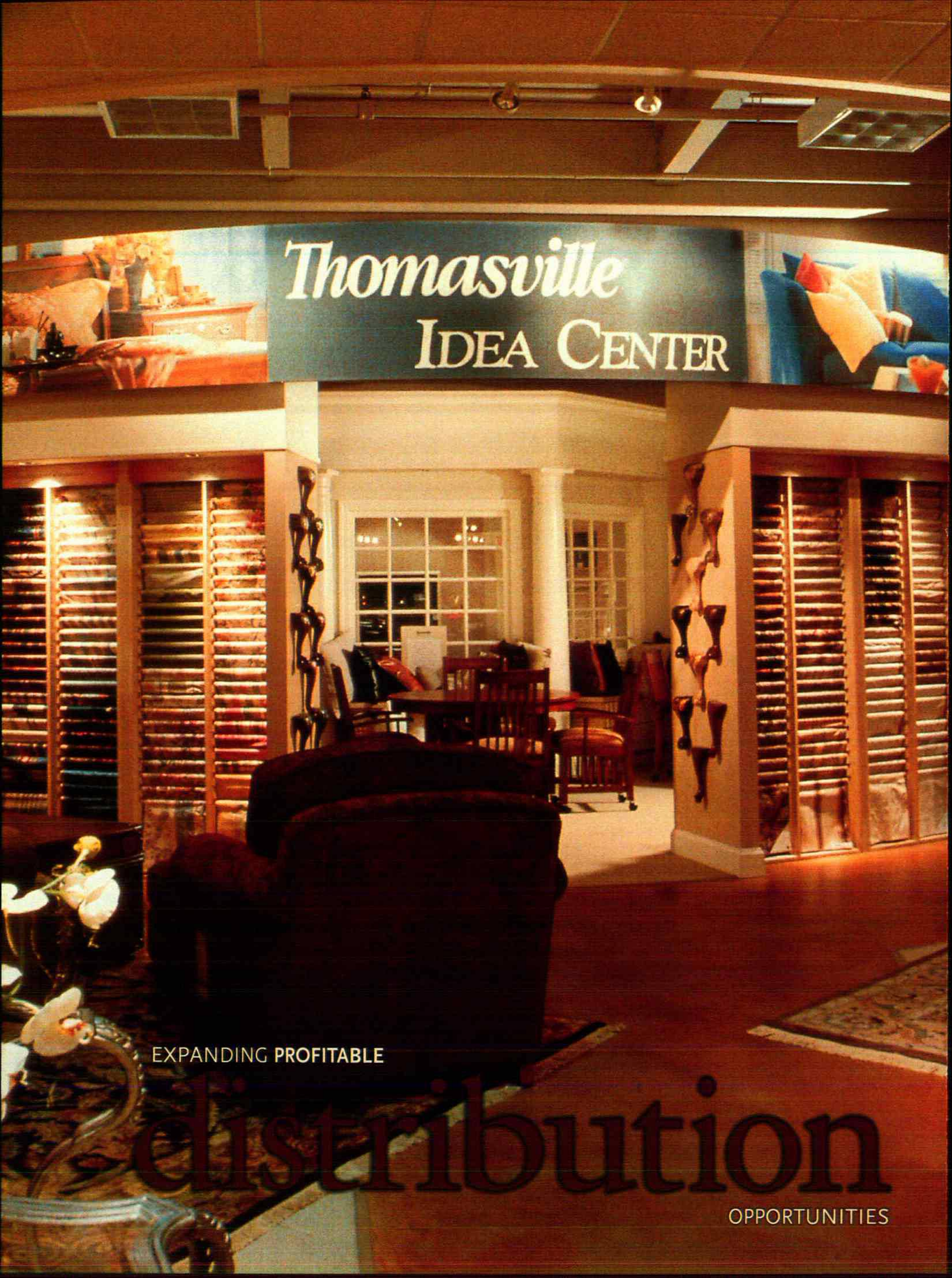
To introduce its Harrods of Knightsbridge Fine Furniture Collection, Highland House arranged a visit to its showroom by Raine, Countess Spencer and the world-famous Harrods doorman. They were a tremendous draw and helped lead to outstanding placements with retailers.

Hickory Chair Company entered a new market with the William E. Poole collection, which features large-scale traditional furniture for larger homes. Hickory Chair also introduced its second Thomas O'Brien Collection, Greenwich Studio, which expands the number of modern, contemporary furniture pieces in Hickory Chair's lineup.

Pearson introduced the Rivers Collection, a collection of finely made wood accent furniture pieces. These pieces are made-to-order, hand-finished reproductions of European antiques, manufactured in the United States using old-world construction techniques.

HBF, the Company's office furniture and textiles division, had its best product introduction ever with its award-winning Vanderbyl Collection, featuring seating and occasional tables created by internationally acclaimed designer Michael Vanderbyl.

Top: HBF introduced the Vanderbyl Collection, which won numerous awards at the NeoCon trade show. Bottom: The Harrods of Knightsbridge Fine Furniture Collection redefines classic elegance.



EXPANDING **PROFITABLE** distribution OPPORTUNITIES

In 2000, Furniture Brands International further strengthened its distribution network, already the best and largest in the residential furniture industry. At year-end, the Company had approximately 11.5 million square feet of dedicated floor space, a 5 percent gain from 1999, and nearly 30 percent more than the 8.9 million square feet at the end of 1998.

Top: The gallery program provides great growth opportunities for Broyhill. Bottom: Research shows that retailers increase their cedar chest sales when they set up a Lane Cedar Boutique.

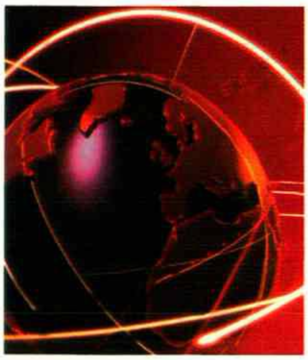
BROYHILL

▶ Broyhill is aggressively establishing domestic and international showrooms and has picked up new dealers in the process. It opened a showroom at the San Francisco market last July and attracted more than 30 new accounts, several of which are installing Broyhill Showcase Galleries, which have about 7,500 square feet of space, or Broyhill Furniture Centers, which contain about 2,500 square feet.

More than half of Broyhill's volume comes through dedicated distribution outlets. At year-end, there were more than 900 Galleries and Furniture Centers dedicated to Broyhill furniture, a 22 percent increase since 1996. Another 100 Galleries or Furniture Centers are scheduled to open in 2001. Broyhill's entire distribution network includes more than 5,000 independently owned retail locations.

LANE

▶ Lane's Action subsidiary launched a new gallery concept in October for smaller retailers, Lane Comfort Furniture Centers, which will contain 2,500 to 3,000 square feet. Lane expects to open about 50 Furniture Centers in 2001. At year end, there were 282 Lane Comfort Showcase Galleries, each with about 4,200 square feet of dedicated space. The number of those Galleries has almost doubled since 1996.



INTERNATIONAL GROWTH OPPORTUNITIES

Furniture Brands International continued to build its foundation for international sales growth in 2001 and beyond. In 2000, Lane signed its second licensee for Action products with a Brazilian company; the other licensee is an Australian company. Broyhill opened new showrooms in Cologne, Germany; Toronto, Canada; Singapore; Guadalajara, Mexico; Birmingham, England; and Tokyo in 2000. The Lane Division consolidated its international sales force with Action's and reached many new dealers. Thomasville added Hickory Chair products to its galleries and Thomasville Home Furnishings Stores outside of the U.S.

Lane eliminated all existing Cedar Boutiques at the end of 1999, remodeled them and relaunched the program in 2000. Lane targeted independent furniture dealers in the relaunch program and opened 608 new Cedar Boutiques during the year, well on the way toward achieving its goal of 750. In 2001, it will target major accounts, including local, regional and national chains.

Laneventure products are displayed at more than 2,000 retailers nationwide, and the division plans to roll out a gallery program during 2001.

Overall, Lane products are carried at more than 16,000 retail locations.

THOMASVILLE

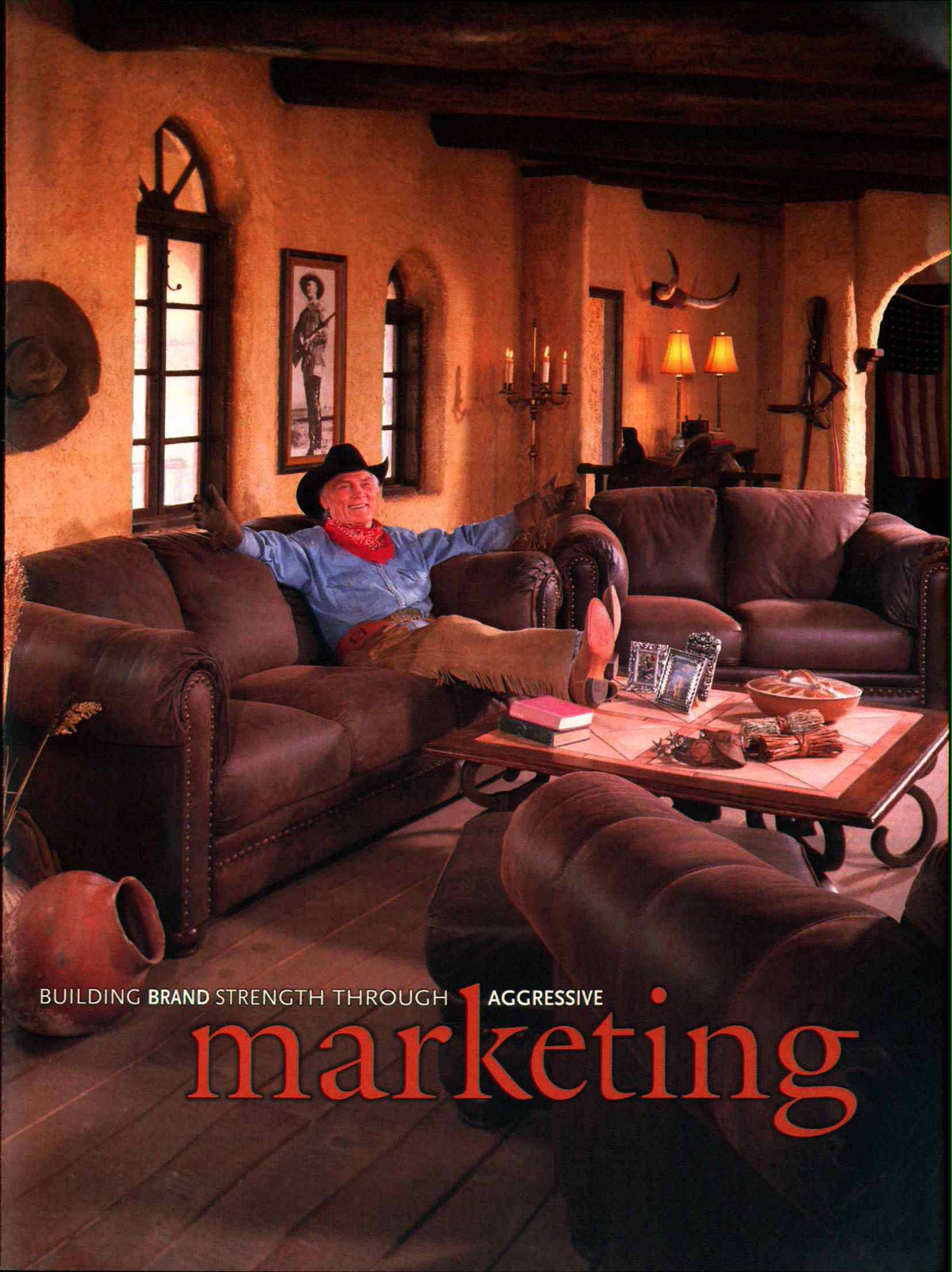
▶ At year-end, there were 137 Thomasville Home Furnishings Stores. The Thomasville stores are well-represented in many of the nation's fastest-growing metropolitan areas. Thomasville, however, will capitalize on strong growth potential in other cities, where its products are underrepresented. For example, it plans to open five stores in the Baltimore, Md., and Washington, D.C., area in the next 18 months. Including the Thomasville Home Furnishings Stores, Thomasville products are available in more than 670 locations, including 226 Thomasville Galleries.

Hickory Chair's new William E. Poole Collection has attracted new retailers and increased placements at Hickory Chair's existing retailers. Similarly, the second Thomas O'Brien Collection successfully gained additional floor space at existing dealers. The division is revamping its Hickory Chair Galleries program, and it has aggressive plans to expand the number of existing galleries.

Pearson distributes its products primarily through premium-quality dealers and the interior design trade. HBF distributes its products through five national showrooms.

Each of the operating companies is focused on increasing the amount of space dedicated exclusively to its products for one simple reason: Research shows that retailers sales and profits increase when furniture is displayed in room-like settings in dedicated space.

THE COMPANY EXPECTS TO OPEN 25 new THOMASVILLE HOME FURNISHINGS STORES THIS YEAR.



BUILDING **BRAND** STRENGTH THROUGH **AGGRESSIVE** marketing

Furniture Brands International continues an aggressive marketing program that has established its brands as three of the best-known in the industry. According to several recent consumer surveys, Broyhill is No. 1 in brand awareness, and Thomasville is rated the highest-quality brand.

The Company's marketing in both print and electronic media (including the Internet) has the same focus — to steer consumers to retailers. In general, the operating companies use shelter publications and home-related cable TV networks to reach consumers.

BROYHILL

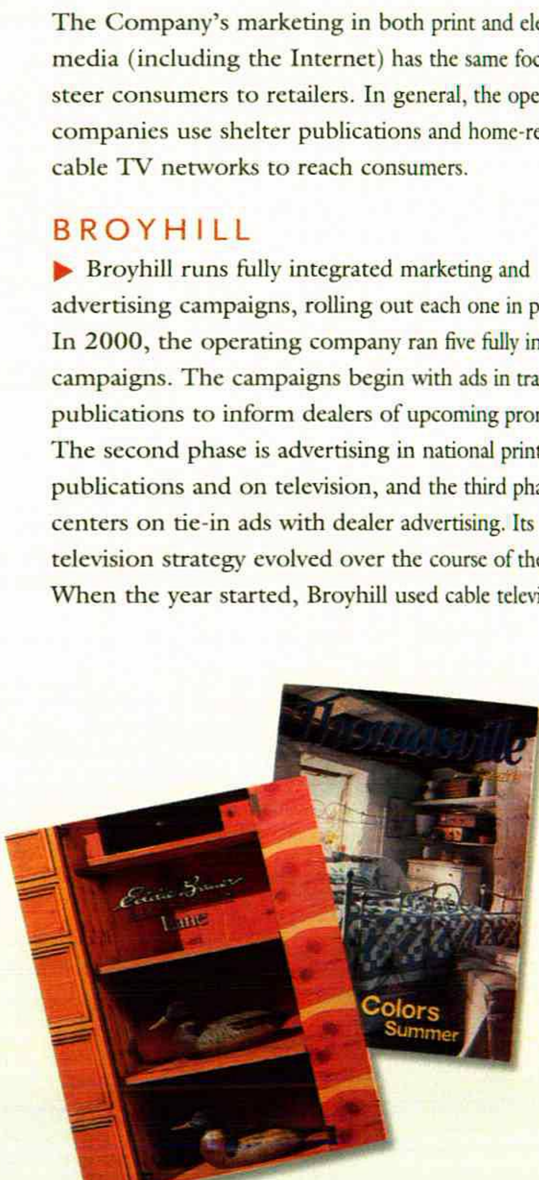
▶ Broyhill runs fully integrated marketing and advertising campaigns, rolling out each one in phases. In 2000, the operating company ran five fully integrated campaigns. The campaigns begin with ads in trade publications to inform dealers of upcoming promotions. The second phase is advertising in national print publications and on television, and the third phase centers on tie-in ads with dealer advertising. Its television strategy evolved over the course of the year. When the year started, Broyhill used cable television exclusively for the national TV ads. By year-end, however, Broyhill was using network TV in selected metropolitan areas where it has high market penetration, and it will continue using this strategy in 2001.

LANE

▶ Lane's advertising strategy for its reclining and motion furniture revolves around holiday promotions. The strategy was rolled out on Labor Day, when ads were placed in *Parade* and *USA Today Weekend* magazines, which together reach 70 million homes. Lane supplemented those ads by producing 11 million circulars. Electronic ads — on TV and on the Action Industries Web site — reinforced the ads by featuring the same photograph. Lane also added 100 new trailers to its "rolling advertising" fleet of 350 tractor-trailers.

THOMASVILLE

▶ Thomasville will spend 90 percent of its advertising budget on television in 2001. Television ads are very effective for Thomasville because of the broad distribution of its furniture. Thomasville's Web site traffic picks up considerably when its cable TV ads begin running. Both Hickory Chair and Pearson advertise chiefly in specialized publications such as *Architectural Digest* and *Veranda*. HBF places ads in contract office magazines such as *Interiors*, *Interior Design* and *Contract*.



This page: The Company's advertising and marketing efforts are designed to guide consumers to retailers. Previous page: Academy-Award winner Jack Palance's Western-movie roles make him the perfect fit to market Lane Leather's American Ranch Collection.

FINANCIAL REVIEW

RESULTS OF OPERATIONS

As an aid to understanding the Company's results of operations on a comparative basis, the following table has been prepared to set forth certain statements of operations and other data for 2000, 1999, and 1998.

	Year Ended December 31,					
	2000		*1999*		*1998*	
(Dollars in millions)	***Dollars***	***% of Net Sales***	*Dollars*	*% of Net Sales*	*Dollars*	*% of Net Sales*
Net sales	**$2,116.2**	**100.0%**	$2,088.1	100.0%	$1,960.2	100.0%
Cost of operations	**1,529.9**	**72.3**	1,498.6	71.8	1,406.4	71.7
Selling, general and administrative expenses	**335.6**	**15.9**	321.2	15.4	314.8	16.1
Depreciation and amortization	**58.1**	**2.7**	56.5	2.7	55.5	2.8
Earnings from operations	**192.6**	**9.1**	211.8	10.1	183.5	9.4
Interest expense	**36.4**	**1.7**	37.6	1.8	43.5	2.2
Other income, net	**9.8**	**0.4**	2.6	0.1	12.1	0.6
Earnings before income tax expense and extraordinary item	**166.0**	**7.8**	176.8	8.5	152.1	7.8
Income tax expense	**57.6**	**2.7**	64.9	3.1	54.2	2.8
Net earnings before extraordinary item	**$ 108.4**	**5.1%**	$ 111.9	5.4%	$ 97.9	5.0%
Gross profit[1]	**$ 546.8**	**25.8%**	$ 550.3	26.4%	$ 515.5	26.3%

[1]The Company believes that gross profit provides useful information regarding a company's financial performance. Gross profit has been calculated by subtracting cost of operations and the portion of depreciation associated with cost of goods sold from net sales.

	Year Ended December 31,		
(Dollars in millions)	***2000***	*1999*	*1998*
Net sales	**$2,116.2**	$2,088.1	$1,960.2
Cost of operations	**1,529.9**	1,498.6	1,406.4
Depreciation (associated with cost of goods sold)	**39.5**	39.2	38.3
Gross profit	**$ 546.8**	$ 550.3	$ 515.5

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net sales for 2000 were $2,116.2 million compared to $2,088.1 million in 1999, an increase of $28.1 million or 1.3%. The increase in net sales was achieved through the Company's continuing strategies of introducing new products, emphasizing brand names and expanding distribution. These efforts were mitigated in part by a general economic slowdown in the second half of the year and the failure of several large customers.

Cost of operations for 2000 was $1,529.9 million compared to $1,498.6 million for 1999, an increase of 2.1%. Cost of operations as a percentage of net sales increased from 71.8% for 1999 to 72.3% for 2000 primarily due to manufacturing inefficiencies in the second half resulting from temporary plant shutdowns to balance inventory with incoming orders.

Selling, general and administrative expenses increased to $335.6 million in 2000 from $321.2 million in 1999, an increase of 4.5%. As a percentage of net sales, selling, general and administrative expenses rose from 15.4% in 1999 to 15.9% in 2000 largely due to an increase in bad debt expense associated with the customer failures noted earlier.

Depreciation and amortization for 2000 was $58.1 million compared to $56.5 million in 1999, an increase of 2.9%. The amount of depreciation and amortization attributed to "fresh-start" reporting was $13.5 million and $13.2 million in 2000 and 1999, respectively.

Interest expense for 2000 totaled $36.4 million compared with $37.6 million in 1999. The decrease in interest expense reflects the Company's debt reduction program, partially offset by higher interest rates.

Other income, net for 2000 totaled $9.8 million compared to $2.6 million for 1999. For 2000, other income consisted of interest on short-term investments of $0.6 million, a cash dividend (nonrecurring) of $7.6 million received by the Company relating to its minority investment in a company which leases exhibition space to furniture and accessory manufacturers, and other miscellaneous income and expense items totaling $1.6 million.

Income tax expense for 2000 totaled $57.6 million, producing an effective tax rate of 34.7% compared with an effective tax rate of 36.7% for 1999. The effective tax rates for both periods were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective tax rate for 2000 was favorably impacted by the nontaxable portion of the $7.6 million cash dividend.

Net earnings per common share before extraordinary item on a diluted basis were $2.15 and $2.14 for 2000 and 1999, respectively. Weighted average shares used in the calculation of net earnings per common share on a basic and diluted basis were 49,532,000 and 50,443,000 in 2000, respectively, and 50,968,000 and 52,335,000 in 1999, respectively.

Gross profit for 2000 was $546.8 million compared with $550.3 million for 1999, a decrease of 0.6%. The decrease in gross profit margin to 25.8% in 2000 from 26.4% in 1999 was primarily due to the manufacturing inefficiencies resulting from the temporary plant shutdowns in the second half noted earlier.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net sales for 1999 were $2,088.1 million compared to $1,960.2 million for 1998, an increase of $127.9 million or 6.5%. The improved sales performance for 1999 occurred at each operating company and ranged, in varying degrees, across all product lines. The increase in net sales was achieved through continued introductions of new products, emphasis on the Company's brand names, and expansion of distribution.

Cost of operations for 1999 was $1,498.6 million compared to $1,406.4 million for 1998, an increase of 6.6%. Cost of operations as a percentage of net sales increased from 71.7% for 1998 to 71.8% in 1999 primarily due to the disposal of low-margin and nonproductive inventories at less than normal profit margins, and to a lesser degree, from short-term manufacturing inefficiencies at several plants caused by an evolving change in case goods product mix.

Selling, general and administrative expenses increased to $321.2 million in 1999 from $314.8 million in 1998, an increase of 2.0%. As a percentage of net sales, selling, general and administrative expenses decreased from 16.1% for 1998 to 15.4% for 1999 because of continued tight control over expenses.

Depreciation and amortization for 1999 was $56.5 million compared to $55.5 million in 1998, an increase of 1.8%. The amount of depreciation and amortization attributed to "fresh-start" reporting was $13.2 million and $13.7 million in 1999 and 1998, respectively.

Interest expense for 1999 totaled $37.6 million compared with $43.5 million in 1998. The decrease in interest expense reflects the Company's debt reduction program and reduced interest rates.

Other income, net for 1999 totaled $2.6 million compared to $12.1 million for 1998, which included a nonrecurring cash dividend of $9.4 million. For 1999, other income consisted of interest on short-term investments of $0.4 million and other miscellaneous income and expense items totaling $2.2 million.

Income tax expense for 1999 totaled $64.9 million, producing an effective tax rate of 36.7% compared with an effective tax rate of 35.6% for 1998. The effective tax rates for both periods were adversely impacted by certain nondeductible expenses incurred and provisions for state and local income taxes. The effective tax rate for 1998 was favorably impacted by the nontaxable portion of the $9.4 million cash dividend.

Net earnings per common share on a diluted basis were $2.14 and $1.82 for 1999 and 1998, respectively. Weighted average shares outstanding used in the calculation of net earnings per common share on a basic and diluted basis were 50,968,000 and 52,335,000 in 1999, respectively, and 52,095,000 and 53,809,000 in 1998, respectively.

Gross profit for 1999 was $550.3 million compared with $515.5 million in 1998, an increase of 6.8%. The increase in gross profit margin to 26.4% in 1999 from 26.3% in 1998 was due to improved manufacturing capacity utilization, partially offset by an inventory reduction program and a change in case goods product mix.

FINANCIAL CONDITION AND LIQUIDITY

Liquidity | Cash and cash equivalents at December 31, 2000 totaled $14.6 million compared to $7.4 million at December 31, 1999. For 2000, net cash provided by operating activities totaled $132.1 million. Net cash used by investing activities totaled $53.0 million. Net cash used in financing activities totaled $71.9 million, including the net payment of $73.1 million of long-term debt.

Working capital was $548.5 million at December 31, 2000 compared to $518.0 million at December 31, 1999. The current ratio was 4.8-to-1 at December 31, 2000 compared to 4.4-to-1 at December 31, 1999. While working capital increased 5.9% from 1999 to 2000, the Company's focus remains on efficient management of individual working capital components.

At December 31, 2000, long-term debt totaled $462.0 million compared to $535.1 million at December 31, 1999. The decrease in indebtedness was funded by cash flow from operations. The Company's debt-to-capitalization ratio was 44.2% at December 31, 2000 compared to 53.0% at December 31, 1999.

Financing Arrangements | On June 7, 2000, the Company refinanced its secured credit agreement with a group of financial institutions. The new credit facility is an unsecured, five-year, revolving credit facility with a commitment of $630.0 million.

The new revolving credit facility allows for the issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than $150.0 million, with cash borrowings limited only by the facility's maximum availability less letters of credit outstanding. On December 31, 2000, there were $446.0 million in cash borrowings and $36.0 million in letters of credit outstanding, leaving an excess of $148.0 million available under the facility.

Cash borrowings under the new credit facility bear interest at a base rate or at an adjusted Eurodollar rate plus an applicable margin which varies, depending upon the type of loan the Company executes. The applicable margin over the base rate and Eurodollar rate is subject to adjustment based upon the credit ratings the facility receives from Standard & Poor's and Moody's. At December 31, 2000, loans outstanding under the credit facility consisted of $435.0 million based on the adjusted Eurodollar rate and $11.0 million based on the base rate for a weighted average interest rate of 7.61%.

The Company believes that its revolving credit facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

OTHER

Market Risk | The Company is exposed to market risk from changes in interest rates. The Company's exposure to interest rate risk consists of its floating rate revolving credit facility.

Recently Issued Statements of Financial Accounting Standards | In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133) "Accounting for Derivative Instruments and Hedging Activities." This statement standardizes the accounting for derivative instruments by requiring that an entity recognize the items as assets and liabilities in the statement of financial position and measure them at fair value. SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company does not believe the adoption of this statement will have a material impact on its financial statements.

Forward-Looking Statements | From time to time, the Company may make statements which constitute or contain "forward-looking" information as that term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations, and releases. The Company cautions investors that any such forward-looking statements made by the Company are not guarantees of future performance and that actual results may differ materially from results inferred or indicated by the forward-looking statements.

(Dollars in thousands)	*December 31, 2000*	*December 31, 1999*
Assets		
Current assets:		
Cash and cash equivalents	$ 14,606	$ 7,409
Receivables, less allowances of $23,075 ($19,057 at December 31, 1999)	351,804	345,385
Inventories (Note 3)	294,454	285,395
Prepaid expenses and other current assets	30,717	33,711
Total current assets	691,581	671,900
Property, plant and equipment:		
Land	19,206	18,930
Buildings and improvements	226,096	204,177
Machinery and equipment	345,040	322,527
	590,342	545,634
Less accumulated depreciation	287,107	247,888
Net property, plant and equipment	303,235	297,746
Intangible assets (Note 4)	289,895	303,446
Other assets	20,127	15,742
	$1,304,838	$1,288,834
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 65,483	$ 73,617
Accrued employee compensation	24,822	28,450
Accrued interest expense	7,646	1,762
Other accrued expenses	45,167	50,035
Total current liabilities	143,118	153,864
Long-term debt (Note 5)	462,000	535,100
Other long-term liabilities	115,815	125,673
Shareholders' equity:		
Preferred stock, authorized 10,000,000 shares, no par value – issued, none	—	—
Common stock, authorized 100,000,000 shares, $1.00 stated value – issued 52,277,066 shares at December 31, 2000 and 1999 (Note 6)	52,277	52,277
Paid-in capital	118,360	120,326
Retained earnings	462,473	356,572
Treasury stock at cost (2,601,759 shares at December 31, 2000 and 2,907,059 shares at December 31, 1999)	(49,205)	(54,978)
Total shareholders' equity	583,905	474,197
	$1,304,838	$1,288,834

See accompanying notes to consolidated financial statements.

(Dollars in thousands except per share data)	*Year Ended December 31,* 2000	1999	1998
Net sales	$2,116,239	$2,088,112	$1,960,250
Costs and expenses:			
Cost of operations	1,529,874	1,498,622	1,406,434
Selling, general and administrative expenses	335,596	321,205	314,837
Depreciation and amortization (includes $13,546, $13,155 and $13,670 related to fair value adjustments)	58,155	56,528	55,469
Earnings from operations	192,614	211,757	183,510
Interest expense	36,389	37,577	43,455
Other income, net	9,772	2,584	12,088
Earnings before income tax expense and extraordinary item	165,997	176,764	152,143
Income tax expense (Note 7)	57,574	64,854	54,205
Earnings before extraordinary item	108,423	111,910	97,938
Extraordinary item – early extinguishment of debt, net of income tax benefit (Note 9)	(2,522)	—	—
Net earnings	$ 105,901	$ 111,910	$ 97,938
Net earnings per common share – basic (Note 6):			
Earnings before extraordinary item	$ 2.19	$ 2.20	$ 1.88
Extraordinary item – early extinguishment of debt	(0.05)	—	—
Net earnings per common share – basic	$ 2.14	$ 2.20	$ 1.88
Net earnings per common share – diluted (Note 6):			
Earnings before extraordinary item	$ 2.15	$ 2.14	$ 1.82
Extraordinary item – early extinguishment of debt	(0.05)	—	—
Net earnings per common share – diluted	$ 2.10	$ 2.14	$ 1.82

See accompanying notes to consolidated financial statements.

(Dollars in thousands)	*Year Ended December 31,* 2000	1999	1998
Cash flows from operating activities:			
Net earnings	**$ 105,901**	$ 111,910	$ 97,938
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net loss on early extinguishment of debt	**2,522**	—	—
Depreciation of property, plant and equipment	**46,095**	44,468	43,409
Amortization of intangible and other assets	**12,060**	12,060	12,060
Noncash interest and other expense	**1,602**	2,172	2,107
Increase in receivables	**(6,419)**	(21,221)	(30,189)
(Increase) decrease in inventories	**(9,059)**	21,987	(20,336)
Increase in prepaid expenses and intangible and other assets	**(7,737)**	(2,872)	(3,055)
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	**(9,226)**	(12,861)	29,704
Increase (decrease) in net deferred tax liabilities	**(2,788)**	(5,390)	2,624
Decrease in other long-term liabilities	**(807)**	(1,687)	(2,956)
Net cash provided by operating activities	**132,144**	148,566	131,306
Cash flows from investing activities:			
Proceeds from the disposal of assets	**316**	451	1,233
Additions to property, plant and equipment	**(53,310)**	(48,951)	(44,358)
Net cash used by investing activities	**(52,994)**	(48,500)	(43,125)
Cash flows from financing activities:			
Payments for debt issuance costs	**(2,090)**	—	(1,684)
Additions to long-term debt	**486,500**	—	218,000
Payments of long-term debt	**(559,600)**	(54,100)	(295,800)
Proceeds from the issuance of common stock	—	—	3,192
Proceeds from the issuance of treasury stock	**3,237**	7,943	—
Purchase of treasury stock	—	(59,720)	(10,943)
Net cash used by financing activities	**(71,953)**	(105,877)	(87,235)
Net increase (decrease) in cash and cash equivalents	**7,197**	(5,811)	946
Cash and cash equivalents at beginning of period	**7,409**	13,220	12,274
Cash and cash equivalents at end of period	**$ 14,606**	$ 7,409	$ 13,220
Supplemental Disclosure:			
Cash payments for income taxes, net	**$ 63,120**	$ 68,100	$ 49,889
Cash payments for interest	**$ 30,873**	$ 40,070	$ 42,974

See accompanying notes to consolidated financial statements.

(Dollars in thousands)	*Common Stock*	*Paid-In Capital*	*Retained Earnings*	*Treasury Stock*	*Total*
Balance December 31, 1997	$52,003	$124,595	$146,724	$ —	$323,322
Net earnings			97,938		97,938
Common stock activity:					
Stock plans activity (Note 6)	274	2,918			3,192
Purchase of treasury stock – 525,000 shares				(10,943)	(10,943)
Balance December 31, 1998	52,277	127,513	244,662	(10,943)	413,509
Net earnings			111,910		111,910
Common stock activity:					
Stock plans activity (Note 6)		(7,187)		15,685	8,498
Purchase of treasury stock – 3,123,200 shares				(59,720)	(59,720)
Balance December 31, 1999	52,277	120,326	356,572	(54,978)	474,197
Net earnings			**105,901**		**105,901**
Common stock activity:					
Stock plans activity (Note 6)		**(1,966)**		**5,773**	**3,807**
Balance December 31, 2000	**$52,277**	**$118,360**	**$462,473**	**$(49,205)**	**$583,905**

See accompanying notes to consolidated financial statements.

NOTE 1: THE COMPANY

Furniture Brands International, Inc. (referred to herein as the "Company") is one of the largest home furniture manufacturers in the United States. During the year ended December 31, 2000, the Company had three primary operating subsidiaries: Broyhill Furniture Industries, Inc.; Lane Furniture Industries, Inc.; and Thomasville Furniture Industries, Inc.

Substantially all of the Company's sales are made to unaffiliated furniture retailers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated net sales and no particular concentration of credit risk in one economic sector. Foreign operations and net sales are not material.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company are set forth below.

Use of Estimates | The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results are likely to differ from those estimates, but management believes such differences are not significant.

Principles of Consolidation | The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany transactions are eliminated in consolidation. The Company's fiscal year ends on December 31. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53-week fiscal year. Fiscal years 2000, 1999, and 1998 were 52-week years.

Cash and Cash Equivalents | The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories | Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment | Property, plant and equipment are recorded at cost when acquired. Depreciation is calculated using both accelerated and straight-line methods based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 12 years for machinery and equipment.

Intangible Assets | The excess of cost over net assets acquired in connection with the acquisition of Thomasville totaled $93,110. This intangible asset is being amortized on a straight-line basis over a 40-year period.

The Company emerged from Chapter 11 reorganization effective with the beginning of business on August 3, 1992. In accordance with generally accepted accounting principles, the Company was required to adopt "fresh-start" reporting which included adjusting all assets and liabilities to their fair values as of the effective date. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for all years presented.

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $146,000. This intangible asset is being amortized on a straight-line basis over a 20-year period.

(Dollars in thousands except per share data)

Also in connection with the adoption of fresh-start reporting, the Company recorded approximately $156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40-year period.

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows of the related assets are less than their carrying values.

Fair Value of Financial Instruments | The Company considers the carrying amounts of cash and cash equivalents, receivables, and accounts payable to approximate fair value because of the short maturity of these financial instruments.

Amounts outstanding under long-term debt agreements are considered to be carried on the financial statements at their estimated fair values because they were entered into recently and/or accrue interest at rates which generally fluctuate with interest rate trends.

Revenue Recognition | The Company recognizes revenue when finished goods are shipped, with appropriate provisions for returns and uncollectible accounts.

Income Taxes | Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Stock-Based Compensation | The Company accounts for stock-based compensation using the intrinsic value method.

NOTE 3: INVENTORIES

Inventories are summarized as follows:

	December 31, 2000	*December 31, 1999*
Finished products	$125,491	$112,389
Work-in-process	61,932	58,479
Raw materials	107,031	114,527
	$294,454	$285,395

NOTE 4: INTANGIBLE ASSETS

Intangible assets include the following:

	December 31, 2000	*December 31, 1999*
Intangible assets, at cost:		
Reorganization value in excess of amounts allocable to identifiable assets	$146,063	$146,063
Trademarks and trade names	156,828	156,828
Excess of cost over net assets acquired	93,110	93,110
	396,001	396,001
Less accumulated amortization	106,106	92,555
	$289,895	$303,446

(Dollars in thousands except per share data)

NOTE 5: LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2000	*December 31, 1999*
Revolving credit facility (unsecured)	$446,000	$ —
Secured credit agreement:		
Revolving credit facility	—	317,500
Term loan facility	—	200,000
Other	16,000	17,600
	$462,000	$535,100

The following discussion summarizes certain provisions of the long-term debt.

Revolving Credit Facility | On June 7, 2000, the Company refinanced its secured credit agreement with a group of financial institutions. The new facility is an unsecured, five-year, revolving credit facility with a commitment of $630,000. The revolving credit facility allows for issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than $150,000, with cash borrowings limited only by the facility's maximum availability less letters of credit outstanding.

Currently, for letter of credit issuances, a fee of 0.75% per annum (subject to increase/decrease based upon the Company achieving certain credit ratings from Standard & Poor's and Moody's) is assessed for the account of the lenders ratably. A further fee of 0.125% is assessed on standby letters of credit representing a facing fee. A customary administrative charge for processing letters of credit is also payable to the relevant issuing bank. Letter of credit fees are payable quarterly in arrears.

Cash borrowings under the revolving credit facility bear interest at a base rate or at an adjusted Eurodollar rate plus an applicable margin which varies, depending upon the type of loan the Company executes. The applicable margin over the base rate and adjusted Eurodollar rate is subject to adjustment based upon achieving certain credit ratings. At December 31, 2000, loans outstanding under the revolving credit facility consisted of $435,000 based on the adjusted Eurodollar rate and $11,000 based on the base rate, for a weighted average interest rate of 7.61%.

At December 31, 2000, there were $446,000 of cash borrowings and $35,994 in letters of credit outstanding under the revolving credit facility, leaving an excess of $148,006 available under the facility.

The revolving credit facility has no mandatory principal payments; however, the commitment matures on June 7, 2005. The facility requires the Company to meet certain financial covenants including a minimum Consolidated Net Worth and Leverage Ratio. In addition, the facility requires repayment upon the occurrence of a Change of Control of the Company.

Other | Other long-term debt consists of various industrial revenue bonds with interest rates ranging from approximately 4.0% to 9.0%. Mandatory principal payments are required through 2008.

Interest Rate Swap Agreements | The Company had entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. In June 1999 and July 2000, the Company executed partial unwinds of $100,000 and $200,000, respectively, of the $300,000 swap agreement. The gains from these transactions are being amortized over the original life of the swap which would have matured in January 2002.

(Dollars in thousands except per share data)

Other Information | The Company has no mandatory long-term debt payments until 2005, at which time $454,000 matures.

NOTE 6: COMMON STOCK

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a $1.00 per share stated value. As of December 31, 2000, 52,277,066 shares of common stock were issued. It is not currently anticipated that dividends will be paid on common stock in the foreseeable future.

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time in open market or privately negotiated transactions. Common stock repurchases are recorded as treasury stock and may be used for general corporate purposes. In 1999, the Company repurchased 3,123,200 shares for $59,720. As of December 31, 2000, the Company has Board of Directors' authorization for the repurchase of an additional $100,000 of its common stock.

Shares of common stock were reserved for the following purposes at December 31, 2000:

	Number of Shares
Common stock options:	
Granted	**4,345,634**
Available for grant	**1,707,115**
	6,052,749

On April 29, 1999, stockholders approved the 1999 Long-Term Incentive Plan. The plan provided for a total of 2,250,000 shares plus all remaining shares available for grant or which become available for grant due to cancellation under the 1992 Stock Option Plan. The plan is administered by the Executive Compensation and Stock Option Committee of the Board of Directors and permits certain key employees to be granted nonqualified options, performance-based options, restricted stock, or combinations thereof. Options must be issued at market value on the date of grant and expire in a maximum of ten years.

In 1999, the Company granted 79,000 shares of restricted stock. The restricted shares vest over various periods from 2 to 5 years. The deferred compensation expense is amortized to expense over the period of time the restrictions are in place and the unamortized portion is classified as a reduction of paid-in-capital in the Company's consolidated balance sheets.

(Dollars in thousands except per share data)

Changes in options granted and outstanding are summarized as follows:

	Year Ended December 31,					
	2000		1999		1998	
	Shares	Average Price	Shares	Average Price	Shares	Average Price
Beginning of period	4,027,063	$12.67	4,018,581	$ 9.37	3,897,930	$ 7.48
Granted	734,600	16.70	772,600	23.49	436,500	23.02
Exercised	(305,300)	6.83	(662,141)	6.02	(273,546)	4.81
Cancelled	(110,729)	18.60	(101,977)	7.91	(42,303)	5.56
End of period	4,345,634	$13.61	4,027,063	$12.67	4,018,581	$ 9.37
Exercisable at end of period	2,591,726		2,342,822		2,261,639	
Weighted average fair value of options granted		$ 9.52		$13.03		$11.04

Had compensation cost for the Company's stock-based compensation plan been determined consistent with SFAS No. 123, the Company's net earnings and net earnings per share would have been as follows:

	Year Ended December 31,		
	2000	1999	1998
Net earnings			
As reported	$105,901	$111,910	$97,938
Pro forma	101,819	108,600	96,180
Net earnings per share – basic			
As reported	$ 2.14	$ 2.20	$ 1.88
Pro forma	2.06	2.13	1.85
Net earnings per share – diluted			
As reported	$ 2.10	$ 2.14	$ 1.82
Pro forma	2.05	2.10	1.80

The weighted average fair value of options granted is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5.70%, 5.00%, and 5.50% in 2000, 1999, and 1998, respectively; expected dividend yield of 0% for all years; expected life of 7 years for all years and expected volatility of 47%, 46%, and 35% for 2000, 1999, and 1998, respectively.

(Dollars in thousands except per share data)

Summarized information regarding stock options outstanding and exercisable at December 31, 2000 follows:

	Outstanding			Exercisable	
Range of Exercise Prices	*Shares*	*Average Contractual Life*	*Average Price*	*Shares*	*Average Price*
Up to $10	1,640,134	2.3	$ 5.61	1,549,725	$ 5.51
$10 – $20	1,601,800	6.4	14.59	681,900	12.83
Over $20	1,103,700	6.7	24.09	360,101	24.14
	4,345,634	4.9	$13.61	2,591,726	$10.02

Weighted average shares used in the computation of basic and diluted net earnings per common share for 2000, 1999, and 1998 are as follows:

	Year Ended December 31,		
	2000	*1999*	*1998*
Weighted average shares used for basic net earnings per common share	49,531,931	50,967,973	52,095,451
Effect of dilutive securities:			
Stock options	910,805	1,366,611	1,713,515
Weighted average shares used for diluted net earnings per common share	50,442,736	52,334,584	53,808,966

Excluded from the computation of diluted net earnings per common share were options to purchase 1,163,700 and 1,100,300 shares at an average price of $23.81 and $24.21 per share during 2000 and 1999, respectively.

NOTE 7: INCOME TAXES

Income tax expense was comprised of the following:

	Year Ended December 31,		
	2000	*1999*	*1998*
Current:			
Federal	$55,191	$62,108	$46,257
State and local	5,171	8,136	5,324
	60,362	70,244	51,581
Deferred	(2,788)	(5,390)	2,624
	$57,574	$64,854	$54,205

(Dollars in thousands except per share data)

The following table reconciles the differences between the federal corporate statutory rate and the Company's effective income tax rate:

	Year Ended December 31,		
	2000	1999	1998
Federal corporate statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal tax benefit	**1.7**	2.5	1.8
Amortization of excess reorganization value	**1.5**	1.5	1.7
Dividend exclusion	**(1.1)**	—	(1.2)
Other	**(2.4)**	(2.3)	(1.7)
Effective income tax rate	**34.7%**	36.7%	35.6%

The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	December 31, 2000	December 31, 1999
Deferred tax assets attributable to:		
Expense accruals	**$ 15,293**	$ 17,873
Valuation reserves	**11,811**	10,318
Employee postretirement benefits other than pensions	**2,855**	2,927
Inventory costs capitalized	**1,560**	2,757
Employee pension plans	**750**	2,121
Other	**2,805**	2,632
Total deferred tax assets	**35,074**	38,628
Deferred tax liabilities attributable to:		
Fair value adjustments	**(68,744)**	(71,422)
Depreciation	**(8,099)**	(8,428)
Fair market value adjustments – accounts receivable	**(2,530)**	(5,060)
Other	**(9,679)**	(10,484)
Total deferred tax liabilities	**(89,052)**	(95,394)
Net deferred tax liabilities	**$(53,978)**	$(56,766)

The net deferred tax liabilities are included in the consolidated balance sheets as follows:

	December 31, 2000	December 31, 1999
Prepaid expenses and other current assets	**$ 23,555**	$ 25,605
Other long-term liabilities	**(77,533)**	(82,371)
	$(53,978)	$(56,766)

(Dollars in thousands except per share data)

NOTE 8: EMPLOYEE BENEFITS

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for 2000, 1999, and 1998 was $2,090, $5,649, and $7,773, respectively.

Company-Sponsored Defined Benefit Plans | Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

	December 31, 2000	*December 31, 1999*
Change in projected benefit obligation:		
Projected benefit obligation – beginning of year	$313,756	$284,498
Service cost	8,665	8,379
Interest cost	22,522	21,905
Actuarial (gain) loss	(3,298)	17,204
Benefits paid	(18,134)	(17,166)
Other	—	(1,064)
Projected benefit obligation – end of year	$323,511	$313,756
Change in plan assets:		
Fair value of plan assets – beginning of year	$361,890	$332,541
Actual return on plan assets	9,402	44,731
Employer contributions	1,198	687
Benefits paid	(18,134)	(17,166)
Other	—	1,097
Fair value of plan assets – end of year	$354,356	$361,890
Funded status	$ 30,845	$ 48,134
Unrecognized net gain	(26,807)	(49,006)
Unrecognized prior service cost	1,336	1,480
Prepaid pension cost	$ 5,374	$ 608

(Dollars in thousands except per share data)

Net periodic pension cost for 2000, 1999, and 1998 included the following components:

	Year Ended December 31,		
	2000	*1999*	*1998*
Service cost-benefits earned during the period	$ 8,665	$ 8,379	$ 7,419
Interest cost on the projected benefit obligation	22,522	21,905	19,856
Expected return on plan assets	(31,840)	(29,193)	(25,464)
Net amortization and deferral	(2,914)	(1,230)	(224)
Net periodic pension (income) expense	$ (3,567)	$ (139)	$ 1,587

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits are based upon service and pay with employees becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 9.0% in 2000, 9.0% in 1999 and 8.5% in 1998. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 7.25% and a long-term rate of compensation increase of 4.5% for all years presented.

Other Retirement Plans and Benefits | In addition to defined benefit plans, the Company makes contributions to defined contribution plans and sponsors employee savings plans. The cost of these plans is included in the total cost for all plans reflected above.

NOTE 9: EXTRAORDINARY ITEM – EARLY EXTINGUISHMENT OF DEBT

In conjunction with the June 7, 2000, refinancing of the Secured Credit Agreement, the Company charged to results of operations $2,522, net of income tax expense of $1,520, representing the deferred financing fees and expenses pertaining to the refinanced facility. The charge was recorded as an extraordinary item.

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES

Certain of the Company's real properties and equipment are operated under lease agreements. Rental expense under operating leases totaled $18,514, $17,417, and $16,537 for 2000, 1999, and 1998, respectively. Annual minimum payments under operating leases are $15,639, $13,769, $11,949, $9,795 and $5,817 for 2001 through 2005, respectively. Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $1,802 at December 31, 2000, aggregate $80,892.

The Company has provided guarantees related to store leases for certain independent dealers opening Thomasville Home Furnishings Stores. The total future lease payments guaranteed at December 31, 2000, were $49,469. The Company believes the risk of significant loss from these lease guarantees is remote.

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

(Dollars in thousands except per share data)

NOTE 11: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Following is a summary of unaudited quarterly information:

	Fourth Quarter	*Third Quarter*	*Second Quarter*	*First Quarter*
Year ended December 31, 2000:				
Net sales	$519,467	$499,746	$533,079	$563,947
Gross profit	130,066	126,812	141,547	148,434
Net earnings:				
Earnings before extraordinary item	24,307	23,373	30,143	30,600
Extraordinary item	—	—	(2,522)	—
Total	$ 24,307	$ 23,373	$ 27,621	$ 30,600
Net earnings per common share – basic:				
Earnings before extraordinary item	$ 0.49	$ 0.47	$ 0.61	$ 0.62
Extraordinary item	—	—	(0.05)	—
Total	$ 0.49	$ 0.47	$ 0.56	$ 0.62
Net earnings per common share-diluted:				
Earnings before extraordinary item	$ 0.48	$ 0.46	$ 0.60	$ 0.61
Extraordinary item	—	—	(0.05)	—
Total	$ 0.48	$ 0.46	$ 0.55	$ 0.61
Common stock price range:				
High	$ 21.69	$ 18.56	$ 21.69	$ 19.69
Low	$ 14.94	$ 14.06	$ 14.25	$ 14.56
Year ended December 31, 1999:				
Net sales	$ 521,169	$ 512,980	$ 520,061	$ 533,902
Gross profit	135,706	134,679	138,236	141,691
Net earnings	$ 29,151	$ 27,460	$ 27,592	$ 27,707
Net earnings per common share:				
Basic	$ 0.59	$ 0.53	$ 0.54	$ 0.54
Diluted	$ 0.58	$ 0.52	$ 0.52	$ 0.52
Common stock price range:				
High	$ 22.00	$ 27.50	$ 27.88	$ 27.88
Low	$ 17.44	$ 17.06	$ 19.63	$ 20.94

Net earnings in the fourth quarter 2000 includes two nonrecurring items that, after taking into account the impact of income taxes, substantially offset each other. The first was a $7,643 cash dividend from the Company's minority investment in a company which leases exhibition space to furniture and accessory manufacturers. This offset a $10,575 increase in bad debt expense attributable to the recent failure of several large customers.

The Company has not paid cash dividends on its common stock during the three years ended December 31, 2000. The closing market price of the Company's common stock on December 31, 2000 was $21.06 per share.

The Board of Directors and Shareholders
Furniture Brands International, Inc.:

We have audited the accompanying consolidated balance sheets of Furniture Brands International, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Furniture Brands International, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

St. Louis, Missouri
January 25, 2001

(Dollars in thousands except per share data)	*Year Ended December 31,* 2000	1999	1998	1997	1996
Summary of operations:					
Net sales	**$2,116,239**	$2,088,112	$1,960,250	$1,808,276	$1,696,795
Gross profit	**546,859**	550,312	515,512	450,690	431,473
Interest expense	**36,389**	37,577	43,455	42,747	45,217
Earnings before income tax expense and extraordinary item	**165,997**	176,764	152,143	107,254	88,292
Income tax expense	**57,574**	64,854	54,205	40,201	34,070
Earnings before extraordinary item	**108,423**	111,910	97,938	67,053	54,222
Extraordinary item	**(2,522)**	—	—	—	(7,417)
Net earnings	**$ 105,901**[b]	$ 111,910	$ 97,938[a]	$ 67,053	$ 46,805
Per share of common stock – diluted:					
Earnings before extraordinary item	**$ 2.15**	$ 2.14	$ 1.82	$ 1.15	$ 0.88
Extraordinary item	**(0.05)**	—	—	—	(0.12)
Net earnings	**$ 2.10**[b]	$ 2.14	$ 1.82[a]	$ 1.15	$ 0.76
Weighted average common shares – diluted (in thousands)	**50,443**	52,335	53,809	58,473	61,946
Other information:					
Working capital	**$ 548,463**	$ 518,036	$ 509,148	$ 482,288	$ 462,661
Property, plant and equipment, net	**303,235**	297,746	293,777	294,061	301,962
Capital expenditures	**53,310**	48,951	44,358	40,004	40,344
Total assets	**1,304,838**	1,288,834	1,303,204	1,257,236	1,269,204
Long-term debt	**462,000**	535,100	589,200	667,800	572,600
Shareholders' equity	**$ 583,905**	$ 474,197	$ 413,509	$ 323,322	$ 419,657

[a]Excluding nonrecurring gain, net of income tax expense, net earnings and net earnings per common share were $90,077 and $1.67, respectively.

[b]Excluding extraordinary item, nonrecurring gain (cash dividend) and additional bad debt expense, net of income tax effect, net earnings and net earnings per common share were $108,351 and $2.15, respectively.

BOARD OF DIRECTORS

Board of Directors

Katherine Button Bell[2]
Vice-President of Emerson Electric Co.

Wilbert G. Holliman[1]
Chairman of the Board, President and Chief Executive Officer of the Company

Bruce A. Karsh[2, 3]
President of Oaktree Capital Management, LLC

Donald E. Lasater[1, 3]
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman[2*, 3]
Retired Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd[1*]
Former Chairman of the Board of the Company

Malcolm Portera[2]
President of Mississippi State University

Albert E. Suter[1, 3*]
Chief Administrative Officer of Emerson Electric Co.

Committees of the Board

[1]Executive Committee
[2]Audit Committee
[3]Executive Compensation and Stock Option Committee
(*indicates Committee Chairman)

OFFICERS

Principal Corporate Officers

Wilbert G. Holliman
Chairman of the Board, President and Chief Executive Officer

Lynn Chipperfield
Senior Vice-President, Secretary and Chief Administrative Officer

David P. Howard
Vice-President, Treasurer and Chief Financial Officer

Steven W. Alstadt
Controller and Chief Accounting Officer

Jerry L. Lybarger
General Counsel and Assistant Secretary

Presidents of Operating Companies

Dennis R. Burgette
Broyhill Furniture Industries, Inc.
www.broyhillfurn.com

John T. Foy
Lane Furniture Industries, Inc.
www.action-lane.com
www.lanefurniture.com
www.laneventure.com

Christian J. Pfaff
Thomasville Furniture Industries, Inc.
www.thomasville.com
www.hickorychair.com
www.pearsoncompany.com
www.hbf.com
www.hbftextiles.com
www.highlandhousefurn.com

INVESTOR INFORMATION

Transfer Agent and Registrar for Common Stock

The Bank of New York
Church Street Station
New York, New York 10286
(800) 524-4458

Exchange Listing

Common shares are listed on the New York Stock Exchange (trading symbol: FBN)

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will be at 10:00 a.m. on Thursday, April 26, 2001, at the Ritz-Carlton Hotel, 100 Carondelet Plaza, St. Louis, Missouri.

Form 10 – K Annual Report

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Secretary of Furniture Brands International at the Corporate Offices.

Independent Auditors

KPMG LLP
10 S. Broadway, Suite 900
St. Louis, Missouri 63102-1761
(314) 444-1400

Internet Access

Corporate news releases, Form 10-K and Form 10-Q, the annual report and other information about the Company and its subsidiaries are available through the Company's Internet Web site:
www.furniturebrands.com

Furniture Brands
INTERNATIONAL

St. Louis, Missouri